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Sierra Leone: Ex Post Assessment of Longer-Term Program Engagement

This Ex Post Assessment of Long-Term Program Engagement for the Republic of Sierra Leone was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on November 18, 2010. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the Republic of Sierra Leone or the Executive Board of the IMF.

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SIERRA LEONE

Ex Post Assessment Update of Longer-Term Program Engagement

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Authorized for Distribution by the African and
Strategy and Policy Review Departments

November 18, 2010

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Abbreviations and Acronyms

BSL	Bank of Sierra Leone
DfID	U.K. Department for International Development
DTD	Domestic Taxpayer Department
ECF	Extended Credit Facility
EITI	Extractive Industries Transparency Initiative
EPA	Ex Post Assessment
EU	European Union
FSDP	Financial Sector Development Plan
GBAA	Government Budgeting and Accountability Act
GST	Goods and Services Tax
HIPC	Highly Indebted Poor Countries
HIV	Human Immunodeficiency Virus
IFMIS	Integrated Financial Management Information System
IPFMRP	Integrated Public Financial Management Reform Program
IT	Indicative Target
LTO	Large Taxpayer Office
MDAs	Ministries, Departments, and Agencies
MDRI	Multilateral Debt Relief Initiative
MoFED	Ministry of Finance and Economic Development
MTEF	Medium Term Expenditure Framework
NPA	National Power Authority
NRA	National Revenue Authority
PC	Performance Criterion
PFM	Public Financial Management
PRGF	Poverty Reduction Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
SSL	Statistics Sierra Leone
TA	Technical Assistance
VAT	Value Added Tax

I. INTRODUCTION

1. **The Ex Post Assessment (EPA) update covers the period from mid-2005 to mid-2010**. During this time, the 2001 PRGF supported program was completed, leading to a successor PRGF program approved in May 2006. Sierra Leone also reached the HIPC Completion Point at end-2006. The PRGF/ECF program was extended by one year following prolonged delays in concluding the second review. The arrangement was augmented twice in 2008 and 2009 as the economy was hit by external shocks. At the end of the EPA review period, a successor ECF arrangement was approved in June 2010.[2]

2. **During this period, the political and security focus shifted from immediate post-conflict needs to consolidating gains on peace and stability.** The civil conflict had ended in 2001, supported by direct UN security intervention. With progress on consolidating peace and security, the responsibility for security shifted back to the government by mid-2005. At the political level, peaceful elections in late 2007 led to a change in government.

3. **The policy focus has become more development-oriented, although maintaining stable security condition remains paramount.** Macroeconomic stability was reestablished in the immediate post-conflict period. This enabled a gradual switch in policy priorities toward creating an enabling environment for sustained growth. However, a nexus between security and economic development remains: broad-based and inclusive growth is paramount to create jobs; transparency is critical to establish confidence that economic wealth is being managed effectively (particularly important as new mineral concessions are being negotiated). Negative perceptions and resentment in this respect may partly have been a root cause of the civil conflict in the 1990s.

4. **An EPA was conducted in 2005, covering the prolonged period during the civil conflict and the immediate post-conflict period**. The key recommendations were generally reflected in the design of the 2006 PRGF program (Table 1).

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[2] Given crisis-related demands on staff resources, the Executive Board approved a one-year suspension, until August 30, 2010, on the preparation of EPAs for new programs in countries with long-term engagement with the Fund.

Table 1. Status of Key Recommendations from the 2005 Ex Post Assessment

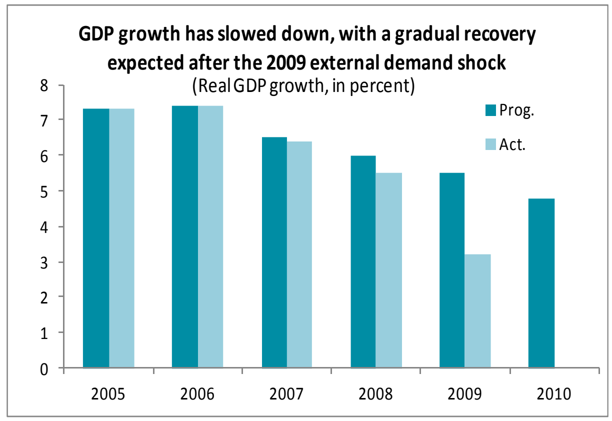
2005 EPA Recommendations	*PRGF/ECF Experience (2006-10)*
(1) Future involvement with Sierra Leone should be consistent with the Fund's overall approach to LICs, focusing conditionality on core areas of the Fund's competence with precautionary or low-access financing.	Conditionality with a few exceptions has focused on core areas of the Fund's competence; access has been higher than anticipated (30 percent of access, augmented twice by 10 percent of quota) in response to external shocks.
(2) A relatively high level of conditionality may be needed to ensure strong policy implementation.	The level of conditionality was relatively high, in particular early on in the program period.
(3) Policy advice should be coordinated with the World Bank and other donors, and set the country on a sustainable growth path.	Advice has been coordinated informally with the World Bank and other budget support donors. The growth performance has been satisfactory.
(4) Fund and Bank policy advice should contribute, respectively, to enhance fiscal discipline and the investment environment.	The Fund and the Bank have focused on their respective core areas of expertise, but with overlap in areas aimed at enhancing fiscal discipline.
(5) A successor PRGF program should place emphasis on capacity and institution building.	The 2006 PRGF program had an appropriate focus on capacity building reinforced by an extensive TA program; there is scope to strengthen the prioritization and sequencing of reforms given absorption constraints.
(6) The budget deficit should be largely financed by external grants.	The budget deficit has been financed predominantly by external grants.
(7) Civil service reforms should be phased in and their short term social costs absorbed in the budget.	Progress on effective civil service reforms has been limited; donor funds are available to support the short term costs of civil service reform.
(8) Over the medium term, an exit from Fund financial arrangements could be considered.	Given the role played by the Fund as an advisor on macroeconomic policy, and to strengthen the confidence of donors and investors, an exit was not feasible. The economy was also hit by external shocks which increased financing gaps. Hence, a successor ECF was approved in June 2010.
(9) It is important for the Fund to continue to provide technical assistance to Sierra Leone.	The Fund has provided intensive TA including from the Fiscal Affairs, Monetary and Capital Markets, and Statistics Departments.

II. Economic Performance During the EPA Period

A. Macroeconomic Performance

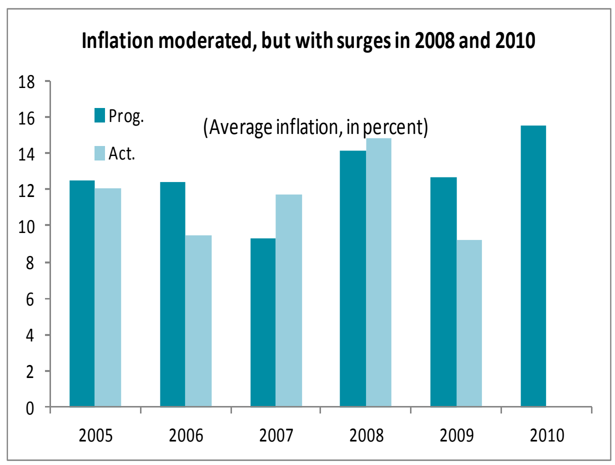
5. **Macroeconomic stability was maintained throughout 2005–10, despite the economy being hit by external shocks**. A strengthened macroeconomic framework enhanced policy resilience (Appendix 1).

- The economy grew on average by 6 percent per year during 2005–09, albeit on a declining trend. This was broadly in line with the program projections. The main contribution to growth was from agriculture and informal services, whereas the mining sector still remains relatively small. Growth slowed to 3.2 percent in 2009 as exports and remittances were affected by the global demand shock.



GDP growth has slowed down, with a gradual recovery expected after the 2009 external demand shock

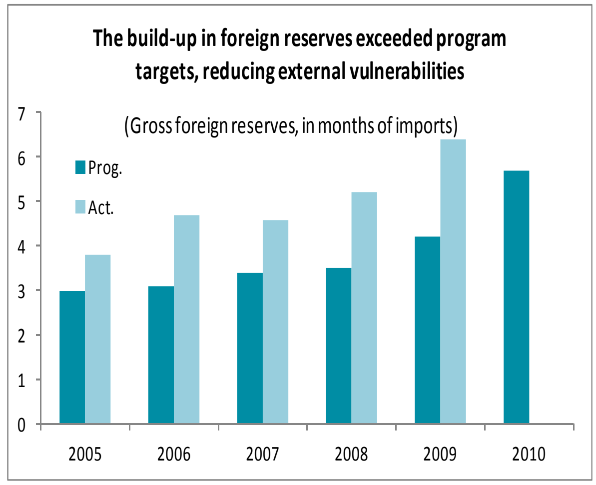
- Inflation has been trending downward, but with spikes related to the food and fuel price shock in 2008, the nominal exchange rate depreciation in late 2009, and unanticipated price increases triggered by the introduction of the goods and services tax (GST) in early 2010.



Inflation moderated, but with surges in 2008 and 2010

- Fiscal performance was mixed. The programmed increase in revenue collections was not achieved. Instead, revenue collections fell in 2006–07 and have only gradually been rebuilt. The authorities contained the impact of the revenue shortfall by adhering to a strict cash-based budget in 2007. However, this led to the accumulation of expenditure arrears. In response to the 2008 food and fuel price shocks, import duties on basic food commodities were temporarily lowered and fuel subsidies increased.

- The current account deficit widened due to external shocks in 2008 and 2009. Despite this, foreign reserves held up, bolstered by the SDR allocation in 2009. The improved reserves coverage, from less than three months of imports coverage in 2006 to over six months in 2009, has reduced external vulnerabilities. The nominal exchange rate remained stable until 2009 when delays in foreign exchange inflows increased depreciation pressures.



- Financial depth and intermediation remains low, although credit growth has been increasing. The spread between lending and deposit rates is high reflecting limited competition and inefficiencies in the banking sector, but also a high risk premium. The majority of the population continues to have limited access to financial services.

- Additional debt relief was provided after Sierra Leone reached the HIPC completion point at end-2006.[3] This freed up resources that have partially contributed to a more than doubling of poverty-reducing expenditure from 2 percent of GDP in 2007 to about 5½ percent, on average, in 2008–09.[4]

6. **The economy is vulnerable to domestic and external shocks**. The formal sector is small and the economy is not diversified, limiting the potential tax base. The export base is narrow and volatile, with diamonds comprising about one half of exports. Imports are dominated by oil and rice, which are sensitive to international price fluctuations.

7. **Social indicators are weak although progress has been made in some areas**. Despite macroeconomic stability, poverty remains prevalent and unemployment is high (especially for urban youths). The lack of economic opportunities could adversely impact the security situation. With focus on health sector reforms, infant and under-five mortality indicators and the HIV prevalence rate have slightly declined.

B. Structural Reforms

8. **Economic institutions and policy capacity were severely weakened during the decade-long conflict**. The authorities have made efforts to rebuild capacity (Appendix 2).

[3] Total debt relief amounted to $675 million, of which $125 million from the IMF (in net present value terms).

[4] Debt service payments on a cash basis declined from 4 percent of GDP, on average, during 2004–06 to less than 1 percent of GDP during 2007–09.

However, the implementation of structural reforms has generally been slower than expected, reflecting capacity constraints, and in some areas, lack of buy-in from the authorities—possibly explaining delays in implementing the mining fiscal regime. There may have been merit in pursuing a more prioritized approach in defining the reform agenda in light of capacity constraints.

9. **Progress was made on public financial management (PFM) reform, although further steps are needed**. A computerized financial management system (IFMIS) is now partly rolled out to government ministries, departments, and agencies; new PFM legislation was introduced; internal audit capacity is gradually being developed and deployed; and external audit is being strengthened. However, weaknesses persist in budget formulation and execution, procurement practices, and project appraisal and planning in both the Ministry of Finance and Economic Development (MoFED) and sector ministries. A donor-funded integrated PFM reform program has been in place since late 2009.

10. **On the revenue front, the most significant achievement was the introduction of a GST**. The GST (a VAT) was implemented in January 2010, albeit with significant delays. FAD in early 2006 recommended reforms that would have enabled the introduction of the GST in 2008. But progress on implementing the preparatory steps was mixed, and the launch of the GST was continuously pushed back. The implementation delays reflected capacity constraints, but perhaps also insufficient political backing at critical junctures and frequent turnover of management in the National Revenue Authority (NRA). Less progress has been made on other tax administration reforms. There were also delays in preparing a new Mines and Minerals Act, which contains a revised royalty regime, eventually approved at the end of 2009.

11. **The monetary policy framework has been strengthened.** The gradual recapitalization of the Bank of Sierra Leone (BSL) by converting noninterest bills to T-bills has bolstered the capacity for monetary policy. In addition to the weekly T-bill auctions, liquidity is now also managed by open market operations using repos and reverse repos. However, the interbank market remains underutilized, partly reflecting limited uptake on the part of the commercial banks. The authorities are keen to extend the yield curve beyond one year by issuing longer-term government debt.

12. **Progress was also made on financial sector and other structural reforms**. Private sector credit has grown rapidly in recent years, albeit starting from a relatively low level. New banks have entered Sierra Leone, which should over time provide more competition and access to financial services. The capacity for banking supervision is being strengthened, with some concerns about the high level of nonperforming loans. A project is underway to strengthen the payment system. Despite progress, a significant reform agenda is still outstanding, as reflected in the 2009 Financial Sector Development Plan. The privatization program did not progress as speedily as initially envisaged. Going forward, there is a need for renewed attention to reforms of the business environment to encourage private sector-led growth.

III. Key Issues in Fund Engagement

A. Program Objectives

13. **The PRGF arrangement approved in May 2006 aimed at consolidating progress on macroeconomic stability in an uncertain post-conflict environment**. The specific program objectives were to increase revenue to create fiscal space for priority spending, and through financial reforms to increase private savings and investment. Domestic revenues were targeted to increase from 12.2 percent of GDP in 2005 to 13.6 percent of GDP by 2008. Private savings were expected to improve modestly.

14. **The program achieved its overarching objective by providing a sound macroeconomic framework and over time building up resilience to shocks**. All reviews were completed as scheduled, except for the second review, which was delayed for a prolonged period due to major fiscal slippages. The targeted improvement in revenue collections did not materialize.

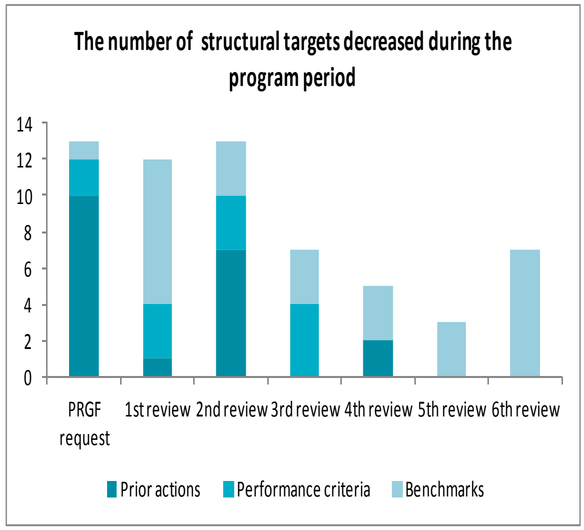
B. Program Design

15. **The program design remained broadly unchanged throughout the PRGF/ECF period**. The quantitative framework had standard performance criteria (PC) on net domestic assets of the central bank, gross foreign exchange reserves, and net domestic budget financing (capturing bank financing and T-bill holdings by the nonbank sector), but also included an additional fiscal target on the domestic primary balance. An indicative target on government revenue was later elevated to a performance criterion, whereas an indicative target on the government wage bill was removed in 2008.

16. **The adjustor for budget support was changed during the program to protect the foreign reserves position**. The adjustor for shortfalls in budget support was initially capped at 50 percent of projected budget support inflows. This was later replaced by an adjustor capped at $20 million, set relatively low to protect foreign reserves. Given the lumpiness and unpredictability in budget support, there would be merit in increasing the cap (perhaps gradually), as long as the foreign reserves outlook remains comfortable. An inconsistency in the application of the adjustors to the fiscal targets was tackled in the ECF program approved in June 2010.[5]

[5] The adjustor for shortfalls in budget support only applied to the domestic financing target, and not to the domestic primary balance target.

17. **The original program had extensive structural targets**. The intensity of structural conditionality was reduced during program implementation. Most measures were "macrocritical," but a few extended beyond the core expertise of the Fund (e.g., electricity tariff policy and human resource management). Revenue measures became more central from the second review. There is growing recognition of the need for structural measures that capture the implementation of "real changes" rather than the formulation of plans and policies only. There is no evidence that the implementation of reforms would have been stronger with fewer structural targets.[6]



18. **The design of the ECF approved in June 2010 was simplified**. The number of quantitative targets has been reduced–there is now only one core fiscal PC—and the adjustors are applied uniformly across all PCs. The PC on revenue collections has been changed back to an indicative target. There has also been an attempt to strengthen the focus of the structural agenda on macrocritical reforms.

C. Program Performance

19. **Program performance improved over time**. The PC on foreign reserves was met on all test dates, while the PC on net domestic assets was only missed once (Table 2). However, revenue slippages, expenditure overruns, and delays in budget support resulted in all end-2006 quantitative targets being missed. Adhering to a tight cash-based budget, with limited recourse to bank financing, the authorities were able to meet all quantitative targets for 2007 except for the indicative targets on revenue and poverty-related expenditures. Unfortunately, expenditure arrears were also accumulated. Following the belated completion of the second review, program performance improved with the core PCs being met at all test dates, except for the domestic primary balance that was missed twice (reflecting inconsistencies in the adjustor for budget support). The target on domestic revenue was missed except for test dates in mid-2006 and in 2009.

[6] Indeed, as noted in the 2005 EPA, a high degree of conditionality could be appropriate to support policy implementation in a weak post-conflict environment

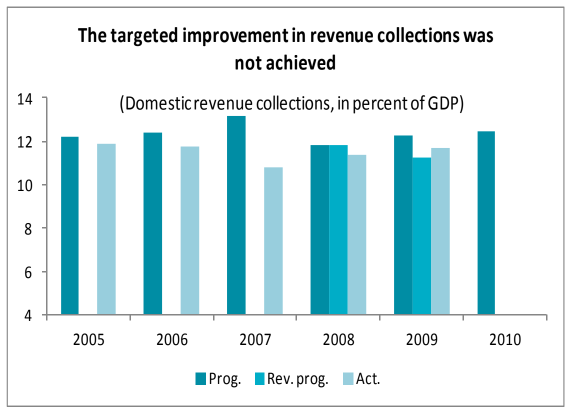
Table 2. Quantitative Performance Criteria, 2005–09 1/

	June 2005	June 2006	Dec 2006	June 2007	Dec 2007	June 2008	Dec 2008	June 2009	Dec 2009
Performance criteria									
Net domestic bank credit to government (ceiling)	Not Met	Met	Not Met	Met	Met	Met	Met	Met	Met
Net domestic assets of the central bank (ceiling)	Met	Met	Not Met	Met	Met	Met	Met	Met	Met
Domestic primary balance (floor)	Not Met	Met	Not Met	Met	Met	Not Met	Met	Met	Not Met
Gross foreign exchange reserves of the central bank (floor)	Met	Met	Met	Met	Met	Met	Met	Met	Met
Total domestic government revenue (floor)	…	…	…	…	…	Not Met	Not Met	Met	Met
Indicative targets									
Total domestic government revenue (floor)	Not Met	Met	Not Met	Not Met	Not Met	…	…	…	…
Governmentt wage bill (ceiling)	Not Met	Not Met	Not Met	Met	Met	…	…	…	…
Poverty-related expenditures (floor)	Not Met	Not Met	Not Met	Not Met	Not Met	Met	Met	Not Met	Met

1/ Excluding PCs on subsidies to National Power Authority, accumulation of arrears, and contracting or guaranteeing of nonconcessional and short-term external debt, which were met on a continuous basis.

2/ The test dates are June 2005 (IMF Country Report No. 06/183); June and December 2006 (IMF Country Report No. 08/249); June and December 2007 (IMF Country Report No. 08/249); June 2008 (IMF Country Report No. 09/215); December 2008 (IMF Country Report No. 09/215); June 2009 (IMF Country Report No. 10/15); and December 2009 (IMF Country Report No. 10/176).

20. **The frontloaded revenue targets were overly ambitious**. The disappointing revenue outturn reflected a combination of unrealistic targets and a weakening in collection efforts in the run-up to the elections in 2007. Tax reform measures were only implemented partially or with a delay. More realistic revenue targets were incorporated into the program in subsequent reviews. Looking ahead, a proper balance is needed in setting revenue targets that are ambitious, supported by strong policy or administrative measures, but still achievable given the structural constraints in the economy. .



21. **Overruns on the payroll have been a recurring problem under the program**. The indicative target on the wage bill was missed on three out of five test dates, and it was dropped starting from 2008. While the program included structural measures aimed at strengthening payroll management, these were limited in scope, and proved inadequate to tackle the underlying problems experienced in controlling the payroll.

D. Other Issues

22. **The program has been well supported by technical assistance (TA)**. Focus has been on improving revenue administration and PFM, strengthening the capacity for monetary policy and bank supervision, and improving statistics. Continued weaknesses in core economics statistics—the national accounts, inflation, and balance of payments—constrain the use of official data for program monitoring. A renewed focus is also needed on civil service reform, where donors should provide support to implement the government's reform

program, with Fund involvement focused on advising on the budget and macroeconomic impact.[7]

23. **The collaboration with donors has been close**. The mission team and donors interact frequently, including by video conferencing. With the IMF resident representative soon to be relocated to Sierra Leone, the cooperation with donors is expected to evolve further. The difficulties in completing the second review contributed to delays in budget support at a critical juncture in the post-conflict transitional period.[8] Since then, there have been no prolonged delays in budget support, but a concern remains about the predictability of disbursements. The interaction with donors could be strengthened further by the IMF resident representative participating as an observer in budget support review missions. Budget support donors use the IMF assessment of macroeconomic policy. There is scope to enhance complementarities in macroeconomic analysis.

24. **The timing and focus of Fund missions could be reoriented to better support the budget preparation**. Review missions are typically undertaken twice a year with the second mission discussing the macroeconomic framework for the following year. The MoFED issues the budget call circular, with indicative expenditure, in June. Following the second review mission, the expenditure ceilings are often revised, providing limited time to adjust the draft budget. Program reviews could better reinforce the budget preparation timeline. Options could either be to conduct a brief staff visit between reviews to work with the authorities on finalizing the macroeconomic framework for the next fiscal year, or to extend the scope of the first review mission in the year to also discuss projections for the coming fiscal year. However, this would also require greater efforts by the government and donors to prepare for an earlier discussion of the budget framework.

IV. Medium-term Development Strategy

25. **The Agenda for Change (PRSP II) envisages a moderate rebalancing of social spending and infrastructure reconstruction**. The strategy recognizes the importance of continuing to improve health, education, and governance. But this should be complemented with more attention to rebuilding physical infrastructure, which was damaged or neglected during the conflict. Regulatory and institutional reforms in the transportation, power, and water sectors are important for this strategy to be effective. It will also be critical to enhance

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[7] Civil service reform was complicated in the post-conflict context. A resettlement program was completed by 2004, and the police presence was increased as the UN scaled back its security presence. There continues to be pressure to hire additional health and education personnel.

[8] Some donors were not able to disburse budget support in 2007 as they required either a Fund review to be completed or a letter of comfort (the EC and the World Bank). Other donors delayed budget support, at least in part, as their own specific conditionality was not met (DFID).

the capacity of the government to appraise, design, and implement infrastructure projects. Donors with relevant sector expertise should provide strong support to the government in this effort. The Fund should work with the government to assess the scope to scale up investment in infrastructure within realistic fiscal and macroeconomic frameworks.

V. Lessons for the Future

A. Strategy for Future Fund Involvement

26. **The authorities and donors share the view that the Fund has performed an essential role in advising on macroeconomic policy.** Given the still weak (albeit improving) capacity, a continued close engagement with the Fund will be highly desirable. The key objective should be to support the authorities' design and implementation of a sound macroeconomic framework and to play a signaling role with respect to budget support.

27. **Continued attention to capacity-building is needed**. There is no evidence that the long-term engagement with the Fund has negatively impacted on domestic policymaking. Rather, the capacity was severely weakened during the prolonged civil conflict, and the IMF engagement has been well attuned to the need to rebuild this. Still, continued (and possibly increased) efforts aimed at strengthening the capacity of the authorities to design the macroeconomic framework and supportive policies would be essential. There may also be scope to engage with a broader range of stakeholders in Sierra Leone to deepen ownership of the economic program.

28. **The decision to approve a successor ECF in June 2010 was appropriate, and continued engagement after that would be desirable**. A possible successor arrangement could take the form of either a new ECF or a PSI arrangement. However, as the PSI is intended for more mature stabilizers, this may provide a long-term exit strategy (e.g., another ECF could be followed by a PSI). Contingent on an assessment of the financing needs, it would be reasonable to envisage a successor ECF arrangement with reduced access (possibly as low as 10 percent of quota).

B. Specific Recommendations

- The key fiscal objective remains to improve revenue collections to create fiscal space for expanding priority spending. However, a careful balance is needed in forecasting revenue, taking into account structural characteristics of the economy and the strength of revenue measures. The push to increase revenue from the minerals sector and enhance transparency is paramount. Over time, it could be considered to eliminate the indicative target on revenue, albeit in the short term this should be retained to avoid signaling a shift in priorities.

- The program design was strengthened in the recently approved ECF arrangement. There would be merit in increasing the cap for shortfalls in budget support as long as the foreign reserves position remains comfortable.

- The trend toward a more parsimonious use of structural conditionality should continue. Attention is needed to formulate structural benchmarks that are of macrocritical importance, and capture the implementation of reforms or policy changes.

- A continued focus in future Fund-supported programs on strengthening capacity will require a sustained and medium-term oriented TA engagement. Realistic prioritization of the reform agenda and TA activities is critical given absorption constraints. The program review missions could also improve capacity for macroeconomic analysis. Examples of this could be focused workshops during review missions on program-related topics (e.g., on financial programming or revenue forecasting).

- The timing and scope of the IMF review missions should reinforce the budget preparation process. The authorities, budget support donors, and the IMF country team should jointly work to develop the capacity for a more timely discussion of the macroeconomic framework for the next fiscal year.

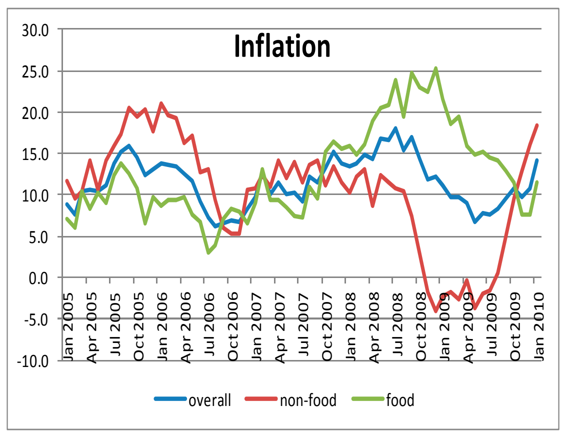
- The collaboration with budget support donors should be further strengthened and could be formalized by the IMF resident representative participating as an informal observer in the multi-donor budget support review missions.

- Debt relief under the HIPC and MDRI initiatives improved the debt sustainability outlook. This created room for some new borrowing to scale up priority spending. So far, new debt has been contracted on concessional terms. To avoid a return to an unsustainable debt situation, it would be desirable to continue to borrow prudently and on concessional terms, with the main source of budget financing in the form of grants.

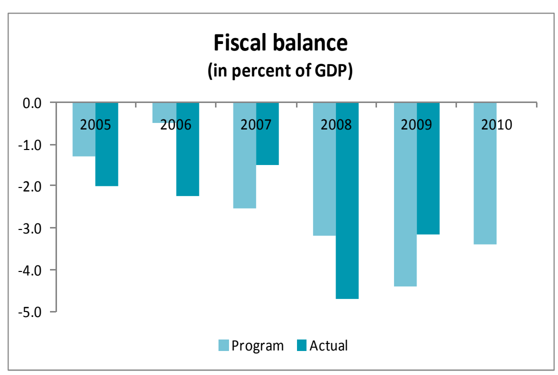
Appendix 1. Macroeconomic and Program Performance

The PRGF (now ECF) supported program aimed at maintaining high real growth and a stable macroeconomic environment. The original program objectives were to achieve output growth of 6 percent by 2008, an overall fiscal balance of -2.7 percent of GDP, domestic primary balance of 2 percent of GDP, domestic financing below 0.3 percent of GDP annually, and gross official reserves of about three months of imports. This would be supported by increasing domestic revenues from 12.2 percent of GDP in 2005 to 13.6 percent by 2008 and containing expenditures close to 23 percent.

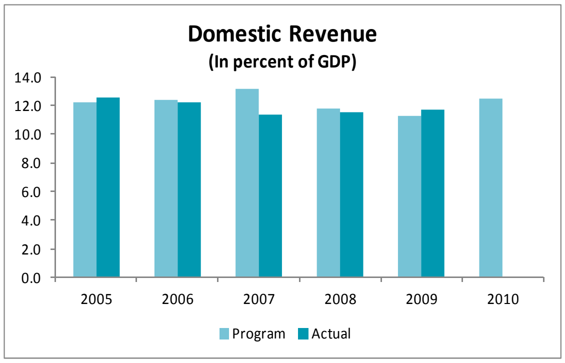
Program performance has been generally good, albeit with a prolonged delay in completing the second review. The target for gross reserves was always met. Performance weakened in 2006 when fiscal slippages prevented meeting all the quantitative PCs. Adherence to the revenue target has generally been weak. The PC on poverty-related expenditures was met in both 2008 and end-2009. The continuous PC on the introduction or modification of multiple currency practices was not observed when the BSL introduced separate foreign exchange auction windows for oil (November 2008) and rice (August 2009). However, these separate auction windows were eliminated in September 2009.

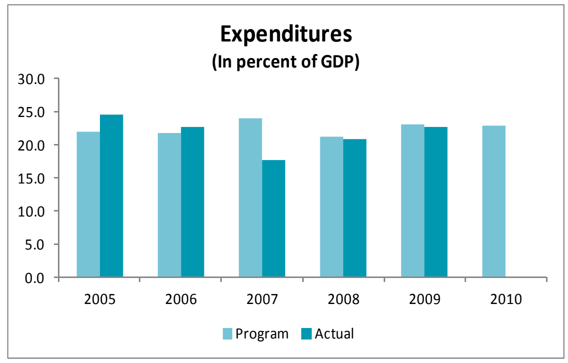


Growth remained robust in Sierra Leone during this period despite the global economic crisis (Appendix Table 1). The average growth rate from 2005–09 was 6 percent, close to the program objective. Inflation slowed to single digits in 2006, but the food and fuel crisis in 2007–08 led to double-digit inflation. Lower fuel prices and higher domestic production helped bring inflation down to 9.2 percent in 2009. However, the depreciation of the leone in late 2009, the introduction of the goods and the GST in January 2010, and higher domestic fuel prices pushed up inflation to 18 percent in the 12 months through August 2010.

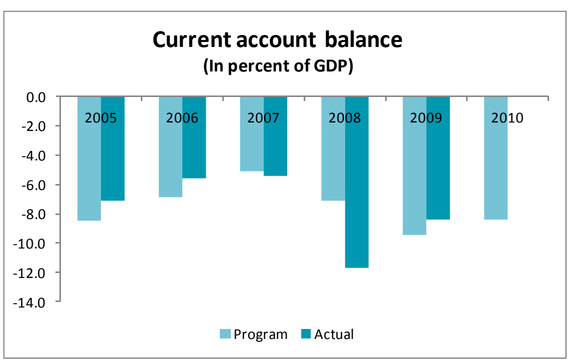


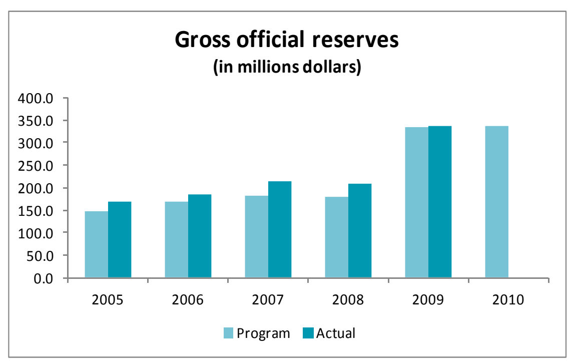
Fiscal policy strengthened over time as revenue collections recovered and expenditures were contained. Fiscal slippages in the second half of 2006 persisted through the first quarter of 2007. Inadequate collection efforts, the granting of discretionary duty and tax waivers and persistent delays in passing both the 2006 and 2007 Finance Bills contributed to the revenue shortfall. With elections scheduled for late 2007, the authorities at the time could not commit to comprehensive corrective measures. Nonetheless, to preserve macroeconomic stability during the elections, the authorities adopted a cash-budget management system with no recourse to bank financing. This helped improve the overall fiscal balance and most quantitative PCs were met in 2007.





The current account improved in the initial years with robust exports and lower fuel and food prices. However, as the global financial crisis hit, exports of diamonds plunged in 2008 and 2009 (also reflecting production-related problems in the largest diamond-producing mine) while oil imports rose sharply in 2008. This led to a sharp rise in the current account deficit from 5.5 percent of GDP in 2007 to 11.4 percent of GDP in 2008. The current account deficit was financed by aid flows (mainly project grants and official flows). Official foreign exchange reserves increased throughout the period.





Appendix Table 1. Performance Under the PRGF/ECF Program, 2005–10

	1st Rev	1st Rev	1st Rev	2nd Rev	2nd Rev	3rd Rev	3rd Rev	4th Rev	4th Rev	4th Rev	5th Rev	6th Rev	6th Rev
	2005		2006		2007		2008			2009			2010
	Prog. 1/	Act.	Prog. 1/	Act.	Prog. 2/	Act.	Prog. 3/	Rev Prog. 4/	Act.	Prog. 4/	Rev Prog. 5/	Act.	Prog. 6/
	(Annual percentage change)												
REAL													
RGDP	7.3	7.3	7.4	7.4	6.5	6.4	6.0	5.5	5.5	5.5	4.0	3.2	4.8
Inflation (average)	12.5	12.1	12.4	9.5	9.3	11.7	14.1	15.6	14.8	12.7	9.5	9.2	15.5
Inflation (end-period)	15.0	13.1	10.1	8.3	8.5	13.8	13.4	15.7	12.2	9.8	9.5	10.8	12.5
MONETARY													
Domestic credit													
Government	1.7	-2.2	0.9	-63.9	20.7	17.6	49.1	49.1	71.9	35.5	26.6	...	...
Private	16.5	17.8	24.1	18.5	14.7	39.4	34.6	34.6	56.8	15.5	31.8	45.4	32.2
Broad money	16.5	32.8	6.4	18.9	17.1	25.9	20.4	20.4	26.4	16.9	12.9	32.2	15.2
Reserve money	9.8	24.3	1.3	10.7	15.6	26	16.8	16.8	10.2	13.2	7.8	20.6	8.0
Velocity (level)	5.3	4.7	5.3	4.7	5.6	4.4	4.3	4.3	4.1	4.0	4.0	3.3	3.4
Money multiplier (level)	2.5	2.5	2.6	2.7	2.6	2.7	2.7	2.7	3.1	3.2	3.2	3.4	3.7
	(Percent of GDP, unless otherwise indicated)												
FISCAL													
Domestic revenue	12.2	11.9	12.4	11.8	13.2	10.8	11.9	11.8	11.4	12.3	11.3	11.7	12.4
Tax revenue	10.4	10.0	10.6	9.9	11.0	9.1	9.7	9.7	9.6	10.3	10.0	10.3	11.0
Nontax revenue	1.8	1.9	1.8	1.9	2.2	1.7	2.1	2.1	1.8	2.0	1.3	1.4	1.4
Grants	8.5	10.0	8.8	20.3	35.5	32.0	6.5	6.3	4.5	6.3	7.3	7.8	7.0
Total expenditures and net lending	22.0	24.6	21.7	22.7	24.0	16.9	20.8	21.2	20.7	22.2	23.0	22.7	23.3
of which : Current expenditures	18.3	18.7	16.6	17.6	15.4	13.3	15.2	15.2	14.6	14.9	15.3	15.6	15.1
Overall fiscal balance													
including grants	-1.3	-2.7	-0.5	9.4	24.7	25.2	-2.5	-3.2	-4.8	-3.5	-4.4	-3.2	-3.9
excluding grants	-9.8	-12.8	-9.3	-10.9	-10.9	-6.8	-9.0	-9.4	-9.4	-9.9	-11.8	-11.0	-10.8
Domestic primary balance	-2.2	-3.1	-1.8	-3.0	-1.4	-1.1	-2.4	-2.8	-2.6	-1.9	-3.8	-4.0	-3.6
Domestic financing	0.7	2.1	0.3	-10.4	1.3	1.7	1.3	1.8	2.7	1.3	1.8	0.7	1.7
External financing	0.9	1.8	-0.1	0.7	-24.7	-26.8	1.2	1.8	2.5	2.2	2.7	2.4	2.1
EXTERNAL													
Current account	-8.5	-7.7	-5.9	-3.5	-5.1	-3.8	-7.7	-7.1	-9.0	-8.4	-9.4	-8.4	-8.7
Trade balance	-10.7	-14.1	-10.8	-6.6	-9.1	-6.0	-9.2	-8.5	-9.3	-9.4	-10.6	-9.6	-8.9
Foreign exchange reserves (m$)	148.9	168.3	168.2	184.2	182.5	215.5	185.9	180.1	209.5	219.3	333.5	336.0	336.0
month of imports	3.0	3.8	3.1	4.7	3.4	4.6	3.5	3.9	5.2	4.2	6.5	6.4	5.7
NGDP (billions of leone)	3518	3505	4295	4214	5132	4970	5845	5873	5824	6712	6442	6407	7605
NGDP (millions of USD)	1193	1214	1342	1423	1615	1664	1814	1969	1952	2131	1939	1879	1962

1/ IMF Country Report No. 07/68.
2/ IMF Country Report No. 08/249.
3/ IMF Country Report No. 09/2.
4/ IMF Country Report No. 09/215.
5/ IMF Country Report No. 10/15.
6/ IMF Country Report No. 10/176.

Appendix 2. Structural Reforms

Structural reforms were supported by technical assistance from the Fund and donors. Specific measures were also included as structural conditionality (Appendix Tables 2–7).

Fiscal issues

Program objectives included improving the efficiency of revenue collections and broadening the tax base. Although key tax policy and administration reforms were implemented, overall performance was mixed and progress was generally slower than envisaged in the program. The domestic revenue target was frequently missed, particularly in the earlier period of the program, and was subsequently elevated from an indicative target (IT) to a performance criterion (PC).

A number of tax reform measures were introduced. The GST was introduced on January 1, 2010 replacing seven other sales taxes to simplify and broaden the tax base.[9] More services are now being taxed, although the exemptions under the GST are more extensive than generally advisable. Other measures included the introduction of a tax identification number, and the adoption of a modernized customs law consistent with WTO practices. Limited progress has been made with respect to other tax administration reforms, with most of the attention focused on the launch of the GST.[10]

Revenue targets particularly in the earlier period of the program were relatively ambitious. Moreover, there was a partial disconnect between revenue targets and supporting measures which partly explains the relatively weak performance of revenues relative to targets. Increases in tax noncompliance, particularly ahead of the 2007 elections, also contributed to the relatively weak performance. However, revenue targets were largely achieved starting in 2008, reflecting an increase in the realism of targets, as well as strengthening of the program's focus on structural measures in the tax area. In 2009, despite the slowdown in growth, revenues outperformed program targets, which may reflect a more conservative approach in target setting.

Many TA recommendations in the revenue area were either not implemented or only implemented after a delay.[11] This partly reflected administrative and institutional weaknesses. It was also due to the apparent lack of political support at critical stages, which was further aggravated by the private sector's opposition to some important reforms (e.g., the introduction of the GST). Frequent changes to the NRA's leadership may also have impacted

[9] The original plan was to introduce the GST in 2008, in line with FAD TA recommendations.

[10] Extensive TA has been provided by the Fund and the DFID in this area.

[11] These include the establishment of a Domestic Tax Department (DTD), and the integration of the GST administration within the Large Taxpayer Office (LTO).

the reform agenda.[12] Some outstanding reforms would have had a positive impact on revenue mobilization—particularly from the mining sector, [13] and increasing tax compliance which remains weak.[14]

PFM reform has made progress, albeit the timely implementation of some reforms has been challenging. Budget credibility and predictability remain major issues. The budget continues to be characterized by unrealistic medium-term expenditure frameworks (MTEFs), an overcomplicated budget preparation process, late changes in expenditure ceilings, slow and cumbersome execution, monthly cash releases made without consultations with ministries, departments, and agencies (MDAs), and continued problems with arrears. As intended under the program, a number of reforms—supported by TA from the Fund and other donors, particularly the EU and the DFID—were introduced to ensure transparency, accountability and efficiency in the use of public resources. To this end, the 4-year Integrated Public Financial Management Reform Program (IPFMRP) was introduced.[15] The IPFMRP contains measures to strengthen the PFM legal framework, including revisions to the Government Budgeting and Accountability Act (GBAA) and implementing regulations for both the Public Procurement Act and the GBAA. A new Local Government Act has also been adopted, and progressive decentralization is now taking place.

On the budget execution and accounting side, the MoFED introduced a new chart of accounts and initiated an integrated financial management information system (IFMIS) project in 2005, which strengthened budget execution, accounting, and reporting. The IFMIS is being gradually rolled out and now covers (directly or indirectly) most transactions by MDAs. Moreover, public expenditure tracking surveys have been integrated into the annual budget cycle to improve service delivery and reduce leakages. Internal audit is being gradually developed and external audit strengthened. However, there were shortfalls in implementing some reforms supported under the program, including delays in recruiting budget officers in MDAs with IFMIS. More generally, while an improvement in aggregate control may have

[12] During the period 2005–10, there were several changes in the management of the NRA. The Commissioner General (CG) appointed in 2008 was suspended in 2009, and the deputy CG has been acting CG since mid-2009.

[13] FAD TA in 2004 reviewed the tax regimes applied to the mining sectors.

[14] For example, FAD TA in 2006 has recommended enforcing taxpayer compliance particularly for large taxpayers by (i) strictly imposing penalties for failing to file income tax returns; (ii) applying penalties and interest for late/underpayment of tax; and (iii) not tolerating any further accrual of parastatal PAYE arrears. Much of this advice was reiterated in 2008, and again by the March 2010 TA mission which emphasized the need to implement recommendations with respect to enforcement of penalties and interest.

[15] The IPFMRP seeks to strengthen capacity for effective and efficient delivery of basic public services by consolidating the progress made in PFM reforms, with the aim to ensure sustainable improvement in the credibility, predictability, control and transparency of the budget.

been achieved, this to some extent has been at the expense of effective budgeting, and hence weak implementation of government policy objectives.

Objectives of expenditure policy were generally met, but within-year program targets were frequently missed. In order to boost growth and reduce poverty, the program aimed at improving the composition of public spending by shifting expenditures from current to capital spending, partly by rationalizing the public sector wage bill through civil service reforms. Accordingly, the wage bill and poverty-related spending were both targeted under the program.[16] The overall policy objective was largely achieved as the share of wages declined slightly and those of poverty-related spending and capital spending increased (Text Table below). The specific program target on the wage bill, though, was frequently missed. Following progress in controlling the payroll with the creation of a comprehensive personnel file for the civil service payroll and correction of anomalies,[17] the target on the wage bill was dropped from the program. This also reflected new Fund-wide guidance to limit the use of wage targets in programs. The target on poverty-related spending was also often missed—particularly in the earlier period of the program[18]—in part due to delays in budget processing and limited capacity to execute the budget. More recently, the program aimed at establishing a transparent and automatic pricing framework for petroleum products that reflects full pass-through of international prices.[19]

Expenditure Composition (in Percent of GDP), 2005–09

	2005	2006	2007	2008	2009
Total expenditures and net lending	24.6	22.7	17.6	20.7	22.7
Current expenditures	18.7	17.6	13.3	14.6	15.6
Wage bill	6.5	6.4	6.0	5.7	6.3
Poverty related spending	4.8	4.4	2.2	5.7	5.6
Capital expenditures	5.9	5.1	3.5	6.2	7.1

Program objectives regarding governance and building fiscal institutions were broadly met. The program included reforms, supported by TA, to strengthen governance, accountability and existing institutions. In particular, an auditor general was appointed, medium-term revenue projections for diamonds, rutile and bauxite were incorporated in the fiscal

[16] The program's conditionality also included a measure to transform the Establishment Secretary's Office into Human Resources Management Office which was met.

[17] The program included a measure to update and audit the database containing all job grades and salary levels for all civil servants and teachers, and to adhere to the cabinet guidelines for annual salary adjustments within grade ranges.

[18] In the later years of the program, the end-year target was met, while that of the mid-year was not.

[19] FAD provided TA in 2010 on options and implications for adopting an automatic petroleum product pricing mechanism.

framework, a steering committee for the implementation of the Plan for National Anti-Corruption Strategy Agreement was established, a revised Anti-Corruption Act was enacted, and the government committed to the principles of the Extractive Industries Transparency Initiative (EITI).[20]

Financial sector and monetary operations

It has proven challenging to deepen financial intermediation and to strengthen the financial sector. The PRGF program appropriately focused on reforms to strengthen banking supervision, including the move toward risk-based focus of supervision. However, progress took longer than expected,[21] despite extensive TA engagement.[22] Some delays in receiving technical and financial donor support impacted the effectiveness of Fund TA. The implementation of some other important reforms that drew on the Financial System Stability Assessment (e.g., to adopt a comprehensive strategy for the reform of the financial sector) was delayed due to capacity constraints and institutional weaknesses. While the relative share of financial sector reforms in the program was generally limited, more recently the program renewed its focus on such reforms, with the inclusion of measures to increase access to finance through the establishment of a credit reference bureau. This was reinforced by the adoption of the Financial Sector Development Plan (FSDP) in 2009.[23]

The objectives of the program with respect to reforms to enhance monetary operations were largely met. Liquidity management has been enhanced through the conversion of noninterest-bearing government securities into marketable securities; by strengthening macroeconomic policy coordination between the MoFED and the BSL[24]; and by developing the interbank market after the phasing out of the discount window with the commencement of repos and reverse repos operations in June 2009. More recently, reforms aimed at further strengthening monetary operations by establishing reverse repo rate as the benchmark interest rate.

[20] The first EITI report was launched in March 2010 on payments made by mining companies and revenues received by MDAs from the extractive sector for fiscal year 2006–07.

[21] The structural benchmark to adopt new offsite surveillance guidelines for banks consistent with the requirements of the revised Banking and Other Financial Services Act was consistently missed.

[22] Sierra Leone is one of the pilot countries for the joint Fund-Bank initiative to support country-led financial sector reforms.

[23] The plan identifies four priority reform areas, including building a strong and competitive banking system, increasing access to finance for businesses and households, improving mobilization and investment of long-term funds, and creating an enabling environment through legislative and regulatory reforms.

[24] This was a continuous structural benchmark from June 2008 through the end of 2009.

Statistical issues

Program objectives in statistics were largely met, albeit with delay owing to capacity limitations. A new fiscal and monetary reporting system was implemented; fiscal data were reconciled with an expanded set of monetary data[25]; and statistics units were established in key MDAs to collect and assemble information relevant for the compilation of socioeconomic data by Statistics Sierra Leone (SSL). Despite this progress, capacity limitation caused delays in the implementation of several elements of the envisaged reforms.[26] While Sierra Leone received extensive TA in various areas—mostly on national accounts statistics—the quality of statistics is still affected by the lack of comprehensive source data.[27] Therefore, there is a need to strengthen SSL capacity to collect and disseminate data, with particular attention to improve collection of agriculture output and compute one single reliable consumer price index.

Overall assessment of structural conditionality

The structural reform agenda has been broadly centered on macrocritical reforms. The number of structural measures has declined, and there has been some attempt to include measures that capture the actual implementation of reforms. The number of structural targets declined from an average of 13 per review during 2006–08 to an average of five per review from 2009 onwards.

The focus of reforms under the program has shifted, with PFM, statistical, and institutional reforms being more critical in the earlier period, while revenue administration, and to a lesser extent, financial sector and monetary operations reforms gained more prominence later on. The shifts in the focus of the structural agenda partly followed the evolution and implementation of the government's reform agenda. There was room to better align the reform agenda to the program objectives in some areas, particularly tax reforms in the early stages of the program. Moreover, the program supported some reforms that arguably extended beyond the Fund's core expertise, for example on tariff policy for the electricity sector to strengthen the financial position of the National Power Authority (NPA), and on human resources management aimed at strengthening the payroll management.[28] While the

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[25] In the past, compilation of fiscal data solely on a cash basis and differences in the coverage of the central government explained most of the discrepancies between the datasets.

[26] The conditionality on the reconciliation of fiscal and monetary data, as well as on establishing statistics units in key MDAs were missed and subsequently elevated to prior actions for the completion of the following review.

[27] Since March 2004, and with support from the GDDS Anglophone Africa Project, 14 national accounts TA missions visited Freetown.

[28] The tariff policy measure was missed due to a change in strategy as the government intends to adopt a cost-based formula for pricing electricity. Moreover, the World Bank is becoming more involved in the electricity sector and has advised the authorities to conduct a new tariff study before a policy is decided. Also, since tariffs

(continued)

problems that these measures were trying to address remain macrocritical, effectively implementing reforms in these areas require expertise that some donors are better placed to provide.

Over time, there was an attempt to include measures that capture the actual implementation of reforms (e.g., the introduction of the GST or the establishment of the DTD. However, some of the "stronger" measures that targeted the final outcome were missed, reflecting in part limited capacity and/or lack of political support. There may have been a case for better sequencing of reforms with increasing focus on those aimed at addressing capacity limitations in the earlier period of the program.

were increased in 2009, likely well above the long-term marginal cost, there is no urgency to adopt a policy to safeguard budget resources.

Appendix Table 2. Structural Conditionality: Request for a PRGF (March 2006 –September 2008) [1/]

Area	Condition	Type 2/	Test Date	Status 3/
PFM	Deputy Auditor General has been appointed	PA		M*
Institutional	The implementation of action plans to reform five key ministers has commenced and the cabinet has approved the sixth action plan for the ministry of local government	PA		M*
Institutional	A plan for transforming the Establishment Secretary's Office into Human Resources Management Office has been approved by the cabinet	PA		M*
Tax policy	A medium-term revenue projection has been finalized for diamonds, rutile and bauxite and incorporated in the overall fiscal framework	PA		M*
STA	All government units and accounts that should be included in the new reporting system for monetary and fiscal data have been identified and benchmark annual data for 2004 established	PA		M*
STA	Implementation of a new fiscal and monetary reporting system, developed with the Fund technical assistance in 2005, for the reconciliation of fiscal and monetary data has started 4/	PA		M*
Institutional	Specific measures to be taken during the period through end-2006 to convert the Establishment Secretary's Office into a Human Resource Management Office have been identified 5/	PA		M*
PFM	An action plan for the implementation of the Government's Budgeting and Accountability Act has been approved by the cabinet 5/	PA		M*
PFM	The stock, as of February 28, 2006, of outstanding utility and wage arrears has been identified and an action plan to clear these arrears has been approved 5/	PA		M*
PFM	Key ministries and agencies have established internal audit units under the control of the chief internal auditor of the MoFED 5/	PA		M*
PFM	The database containing all job grades and salary levels for all civil servants and teachers has been updated and audited, and guidelines for annual salary adjustments within grade ranges approved by the cabinet	PC	End- June 2006	NM*
Financial sector	An assessment of bank capitalization and credit quality for all commercial banks has been finalized by the Bank of Sierra Leone	PC	End-September 2006	M*
Tax policy	A review of existing tax exemptions has been conducted and a plan approved for minimizing the exemptions	BM	End-June 2006	NM*

1/ The program discussion took place between October 17-31, 2005.

2/ PA = Prior action; PC = Performance criterion; BM = Benchmark.

3/ M = Met; NM = Not met. (*) indicates the introduction of a new measure, which also extends to previously-introduced measures that have been elevated to prior actions and/or have a new test date.

4/ This measure has been elevated from a PC to a PA..

5/ These measures have been elevated from BM to PA..

Appendix Table 3. Structural Conditionality: First Review Under the PRGF

Area	Condition	Type 1/	Test Date	Status 2/
PFM	The database containing all job grades and salary levels for all civil servants and teachers has been updated and audited, and guidelines for annual salary adjustments within grade ranges approved by the cabinet 3/	PA		M*
Tax administration	A three-year modernization plan for the NRA, including a separation of HQ and operations functions has been adopted by the cabinet and tabled before parliament	PC	End-June 2007	NM*
Financial sector	A comprehensive strategy for the reform of the financial sector has been adopted by the BSL, drawing on the recommendations of the FSAP, as described on pages 9 and 10 of the Financial System Stability Assessment	PC	End-September 2007	NM*
STA	Prepare a reconciliation of fiscal data with the expanded monetary data produced by the BSL and ensure consistency of the fiscal database with the monetary database	PC	End-December 2007	NM*
Tax administration	A revenue steering committee has been established with membership and charter agreed	BM	End- March 2007	M*
PFM	Coverage of the IFMIS has been extended to key MDAs to facilitate better expenditure control	BM	End-April 2007	M*
Financial sector	Consistent with the MOU, formal procedures with the MoFED have been initiated to restore compliance with the BSL Act 2000 by establishing the terms and conditions for BSL's receipt of interest-earning securities to replenish the prescribed minimum paid-up capital	BM	End- March 2007	NM*
STA	Key MDAs have established and adequately staffed statistics units to collect and assemble information relevant for the composition of socio-macroeconomic data by Statistics Sierra Leone (SSL) and a framework for cooperation between SSL and three units has been agreed upon	BM	End-June 2007	NM*
PFM	Aggregated data for all extrabudgetary agencies and projects have been consolidated with the budgetary accounts of the Accountant General Office for the purpose of compiling analytical data of the whole central government	BM	End-June 2007	NM*
Governance/Institutional	A steering committee for the implementation of the Plan for National Anti-Corruption Strategy Agreement has been established and produced its first report	BM	End- March 2007	NM*
PFM	The action plan on public expenditure tracking surveys (PETS) has been integrated into the broader public financial management (PFM) action plan to improve service delivery and reduce leakages	BM	End-September 2007	M*
PFM/Governance	The implementation framework for the EITI has been developed in collaboration with key donors	BM	End-December 2007	M*

1/ PA = Prior action; PC = Performance criterion; BM = Benchmark.

2/ M = Met; NM = Not met. (*) indicates the introduction of a new measure, which also extends to previously-introduced measures that have been elevated to prior actions and/or have a new test date.

3/ This measure was missed and subsequently elevated from a PC to a PA for the First Review under the PRGF.

Appendix Table 4. Structural Conditionality: Second Review Under the PRGF

Area	Condition	Type 1/	Test Date	Status 2/
Revenue administration	A three-year modernization plan for the NRA, including a separation of HQ and operations functions has been adopted by the cabinet and tabled before parliament 3/	PA		M*
Tax policy and administration	The 2008 finance bill and the statutory instrument have been enacted	PA		M*
Revenue mobilization	The revenue target for the first quarter of 2008 (Le 149.5 billion) has been met	PA		M*
Financial sector	A comprehensive strategy for the reform of the financial sector has been adopted by the BSL, drawing on the recommendations of the FSAP 3/	PA		M*
STA	The fiscal data and the expanded monetary data produced by the BSL for end-June 2007 have been reconciled 3/	PA		M*
Governance/Institutional	A steering committee for the implementation of the Plan for National Anti-Corruption Strategy Agreement has been established 3/	PA		M*
STA	Statistics units have been established in key MDAs to collect and assemble information relevant for the compilation of socio-macroeconomic data by the SSL; a framework for cooperation between SSL and these units has been agreed upon 3/	PA		M*
Macroeconomic policy coordination	Provide to Fund staff the Monetary and Policy Committee (MPC) monthly minutes that include the monthly projections for government revenue and expenditures made available by the MoFED to the Bank of Sierra Leone to produce a monthly liquidity forecast	PC	Continuous, starting June 2008	M*
Revenue administration	Promulgate the interest rate and penalties for under/late payments of taxes and make them effective starting October 1, 2008	PC	End-September 2008	M*
Tax policy	Adoption by the cabinet of the implementation decree for the GST	PC	End-December 2008	NM*
Tax policy	Adoption by the cabinet and submission to parliament of the legislation for the introduction of the GST	BM	End-June 2008	M*
Revenue administration	Introduce a TIN system and make it effective	BM	End-September 2008	M*
Public enterprise reform	Adopt a comprehensive tariff policy for the electricity sector that will strengthen the financial position of the National Power Authority	BM	End-December 2008	NM*

1/ PA = Prior action; PC = Performance criterion; BM = Benchmark.

2/ M = Met; NM = Not met. (*) indicates the introduction of a new measure, which also extends to previously-introduced measures that have been elevated to prior actions and/or have a new test date.

3/ These measures were missed and subsequently elevated from a PC to a PA for the Third Review under the PRGF.

Appendix Table 5. Structural Conditionality: Third Review Under the PRGF

Area	Condition	Type 1/	Test Date	Status 2/
Macroeconomic policy coordination	Provide to Fund staff the Monetary and Policy Committee (MPC) monthly minutes that include the monthly projections for government revenue and expenditures made available by the MoFED to the Bank of Sierra Leone to produce a monthly liquidity forecast 3/	PC	Continuous	M*
PFM	Recruit and assign budget officers to MDAs that have IFMIS "rolled out" and ensure their budget committees are fully operational 3/ 4/	PC	End-June 2009	NM*
Financial supervision	Adoption by the BSL of new off-site surveillance guidelines for banks consistent with the requirements of the revised Banking and Other Financial Services Act, and introduction of new reporting requirements based on these guidelines 3/ 5/	PC	End-September 2009	NM*
Revenue administration	Establish a DTD as the vehicle for achieving the integration of domestic tax collection and make it functional 3/ 6/	PC	End-December 2009	NM*
Revenue administration	Adoption by the cabinet of the implementation decree for new and modernized customs law and regulations that reflects the WTO agreement and protects government customs revenue	BM	End-June 2009	NM* (M with Delay)
Revenue administration	Adoption by the cabinet of a simplified and fully designed small taxpayer regime with supporting draft legislation	BM	End-September 2009	M*
Revenue administration	Integrate the GST administration within the Large Taxpayer Office (LTO) 7/	BM	End-December 2009	NM*

1/ PA = Prior action; PC = Performance criterion; BM = Benchmark.

2/ M = Met; NM = Not met. (*) indicates the introduction of new a measure, which also extends to previously-introduced measures that have been elevated to prior actions and/or have a new test date.

3/ These measures have been lowered from a PC in the original 2009 program agreed during the Third Review to a BM during the Fourth Review.

4/ The test date of this measures changed from end-June 2009 to end-September 2009.

5/ This measure is expected to be met under the new program by end-June 2010.

6/ This measure is expected to be met under the new program by end-September 2010.

7/ This measure is expected to be met under the new program by end-December 2010.

Appendix Table 6. Structural Conditionality: Fourth Review Under the PRGF

Area	Condition	Type 1/	Test Date	Status 2/
PFM	Adoption by the Cabinet of a decision to transfer all off-budget revenue collected by ministries, departments, and agencies to the Consolidated Revenue Fund	PA	Expected to be met by end-June 2009	M*
Revenue administration	Adoption by the Cabinet of the implementation decree for the Goods and Services tax (GST) 3/	PA		M*
Macroeconomic Policy coordination	Provide to Fund staff the Monetary and Policy Committee (MPC) monthly minutes that include the monthly projections for government revenue and expenditures made available by the MoFED to the Bank of Sierra Leone to produce a monthly liquidity forecast 4/	BM	Continuous	M*
Revenue administration	Adoption by the cabinet of the implementation decree for new and modernized customs law and regulations that reflects the WTO agreement and protects government customs revenue 4/ 5/	BM	End-June 2009	NM (M with delay)
Revenue administration	Adoption by the cabinet of a simplified and fully designed small taxpayer regime with supporting draft legislation 4/	BM	End-September 2009	M
Revenue administration	Establish a DTD as the vehicle for achieving the integration of domestic tax collection and make it functional 4/ 6/	BM	End-December 2009	NM
Revenue administration	Integrate the GST administration within the LTO 4/ 7/	BM	End-December 2009	NM
PFM	Recruit and assign budget officers to MDAs that have IFMIS "rolled out" and ensure their budget committees are fully operational 8/	BM	End-September 2009	NM*
Financial supervision	Adoption by the BSL of new off-site surveillance guidelines for banks consistent with the requirements of the revised Banking and Other Financial Services Act, and introduction of new reporting requirements based on these guidelines 9/	BM	End-September 2009	NM
Public enterprise reform	Adopt a comprehensive tariff policy for the electricity sector that will strengthen the financial position of the National Power Authority 10/ 11/	BM	End-December 2009	NM*

1/ PA = Prior action; PC = Performance criterion; BM = Benchmark.
2/ M = Met; NM = Not met. (*) indicates the introduction of new a measure, which also extends to previously-introduced measures that have been elevated to prior actions and/or have a new test date.
3/ This measure was missed during the Second Review and subsequently elevated from a PC to a PA for the completion of the Fourth Review.
4/ These measures remain from the original 2009 program agreed during the Third Review.
5/ The cabinet adopted the draft law and regulations in September 2009.
6/ This measure is expected to be met under the new program by end-September 2010.
7/ This measure is expected to be met under the new program by end-December 2010.
8/ The test date of this measure has changed again from end-September 2009 to end-December 2009.
9/ This measure is expected to be met under the new program by end-June 2010.
10/ This measure was missed during the Second Review and subsequently added to the 2009 program agreed during the Fourth Review.
11/ The World Bank is becoming more involved in the electricity sector and has advised the authorities to conduct a new tariff study before a policy is decided. Also, since tariffs were increased in 2009, likely well above the long-term marginal cost, there is no urgency to adopt a policy to safeguard budget resources.

Appendix Table 7. Structural Conditionality: Fifth Review Under the PRGF

Area	Condition	Type 1/	Test Date	Status 2/
Macroeconomic policy coordination	Provide to Fund staff the Monetary and Policy Committee (MPC) monthly minutes that include the monthly projections for government revenue and expenditures made available by the MoFED to the Bank of Sierra Leone to produce a monthly liquidity forecast 3/	BM	Continuous	M*
Revenue administration	Adoption by the cabinet of the implementation decree for new and modernized customs law and regulations that reflects the WTO agreement and protects government customs revenue 3/ 4/	BM	End-June 2009	M
Revenue administration	Adoption by the cabinet of a simplified and fully designed small taxpayer regime with supporting draft legislation 3/	BM	End-September 2009	M
Revenue administration	Establish a DTD as the vehicle for achieving the integration of domestic tax collection and make it functional 3/ 5/	BM	End-December 2009	NM
Revenue administration	Integrate the GST administration within the Large Taxpayer Office (LTO) 3/ 6/	BM	End-December 2009	NM
Financial supervision	Adoption by the BSL of new off-site surveillance guidelines for banks consistent with the requirements of the revised Banking and Other Financial Services Act, and introduction of new reporting requirements based on these guidelines 7/	BM	End-September 2009	NM
Public enterprise reform	Adopt a comprehensive tariff policy for the electricity sector that will strengthen the financial position of the National Power Authority 8/ 9/	BM	End-December 2009	NM
Tax policy	Introduce the GST 10/	BM	First of Jan 2010	M*
PFM	Recruit and assign budget officers to MDAs that have IFMIS "rolled out" and ensure their budget committees are fully operational 11/	BM	End-December 2009	NM* (M with delay)

1/ PA = Prior action; PC = Performance criterion; BM = Benchmark.

2/ M = Met; NM = Not met. (*) indicates the introduction of new a measure, which also extends to previously-introduced measures that have been elevated to prior actions and/or have a new test date.

3/ These measures remain from the original 2009 program agreed during the Third Review.

4/ This measure was implemented with a delay. The cabinet adopted the draft law and regulations in September 2009.

5/ This measure is expected to be met under the new program by end-September 2010.

6/ This measure is expected to be met under the new program by end-December 2010.

7/ This measure is expected to be met under the new program by end-June 2010.

8/ This measure was missed during the Second Review and subsequently added to the 2009 program agreed during the Fourth Review.

9/ The World Bank is becoming more involved in the electricity sector and has advised the authorities to conduct a new tariff study before a policy is decided. Also, since tariffs were increased in 2009, likely well above the long-term marginal cost, there is no urgency to adopt a policy to safeguard budget resources.

10/ This new measure was introduced during the Fifth Review.

11/ This measure was missed at end-December 2009 but was implemented in March 2010.

Appendix Table 8. Structural Conditionality: Sixth Review Under the ECF and Request of a new ECF Program

Area	Condition	Type 1/	Test Date	Status 2/
PFM/Expenditure Policy	Adopt a domestic fuel pricing formula that reflects full pass-through of international prices	BM	End-June 2010	
Financial supervision	Adoption by the BSL of new off-site surveillance guidelines for banks	BM	End-June 2010	
Revenue administration	Establish a Domestic Tax Department (DTD) as the vehicle for achieving the integration of domestic tax collection and make it functional, including recruiting Commissioner and Deputy Commissioner 3/	BM	End-September 2010	
PFM	Submit to government amendments of the Government Budgeting and Accountability Act (2005) and Financial Management Regulations to ensure that only viable capital projects enter into the budget	BM	End-September 2010	
Monetary Operations	Establish reverse repo rate as the benchmark interest rate and announce the rate after every Monetary Policy Committee meeting	BM	Continuous from end-September 2010	
Financial sector	Establish a credit reference bureau	BM	End-December 2010	
Revenue administration	Integrate the Goods and Services Tax (GST) administration within the Large Taxpayer Office (LTO)	BM	End-December 2010	

1/ PA = Prior action; PC = Performance Criterion; BM = Benchmark.

2/ M = Met; NM = Not Met. (*) indicates the introduction of new a measure, which also extends to previously-introduced measures that have been elevated to prior actions and/or have a new test date.

3/ This measure was missed during the Fifth Review and was kept in the new program with a new test date of September 2010.